STATEMENT BY

THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES

BEFORE

THE HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

ON

A SUPPLEMENTAL RETIREMENT PROGRAM FOR FEDERAL EMPLOYEES

HIRED AFTER 1983

APRIL 23, 1985

Mr. Chairman and Committee Members: My name is Jim Peirce and I am the President of The National Federation of Federal Employees (NFFE). I want to thank you for the opportunity to testify today on the design of a new retirement program for employees hired by the Federal Government after 1983. The issue is extremely important to our membership and we welcome the chance to discuss our position.

Civil service employees hired on or after January 1, 1984 are fully covered by social security and civil service retirement. The required payroll contribution for this dual coverage would normally be 14 percent (7 percent for social security and 7 percent for civil service retirement). But Congress recognized the serious financial hardship this would place on employees and approved Public Law 98-168, which reduces the total salary deduction to 8.3 percent while still maintaining full coverage under the two systems. The law expires January 1, 1986, at which point the 14 percent salary deduction goes into effect. In the meantime, Congress gave itself two years to design a new civil service retirement system which, when combined with social security, would meet the financial needs of Federal workers upon retirement.

Unlike the current system, which is intended to be the major source of income for civil service annuitants, the new system would be a supplemental plan that would use social security as a base. Hence, it would be more modest than the current program, and require a smaller payroll contribution from employees.

There are now less than eight months remaining before P.L. 98-168 expires. But, this amount of time still affords Congress the opportunity to exercise caution in developing the supplemental civil service retirement program. Caution, we believe, which is essential for designing a program that will eventually provide for the financial security of millions of Federal employees and their families. This is a complex, sensitive area where potential disasters lurk at every turn, and I hope that the Subcommittee can prevent an endless, and possibly futile process of trying to patch together a decent program.

A retirement annuity is the most important job benefit for both workers and management. With average life expectancy and length of retirement increasing, it gives employees peace of mind during their careers and financial security following them. For the employer, pension benefits help to manage the workforce, defer compensation obligations, and enhance labor-management relations.

This fact is especially true in the Federal Government. Retirement is probably the only major benefit earned by civil servants which compares favorably with similar programs in the private sector. In fact, with pay rates and total compensation so low in comparison to the private sector, retirement is one of the few remaining incentives to stay in the Federal workforce. According to the Bureau of Labor Statistics, Federal pay rates are far below industry standards, and our health and life insurance plans are poor imitations of those in the private sector. Annual and sick leave benefits may be about the same, but Federal workers do not receive stock options, generous bonuses, and other perquisites offered by large corporations to attract and retain talented employees. The sorry state of civil service compensation has also been confirmed by a recent study by the Hay-Huggins Company (commissioned by the Committee) showing Federal pay and benefits lagging 7.2 percent below that of private industry. Civil service retirement, therefore, is the cornerstone of the Federal compensation system. It is the primary incentive for individuals to enter Government service and to pursue Government careers.

In order to fully consider a new supplemental plan, it is important to look first to the current system as a reference point. And this is why I believe OPM Director Donald Devine and the Administration have initiated a campaign to discredit the current Civil Service Retirement System. Despite its importance to individual employees and to the overall quality of the Federal workforce, the CSRS is a constant target of benefit reductions. Opponents of the system, including the present Administration, claim the system is too generous as well as too costly to the Government.

With respect to the system being "too generous," our opponents almost always forget to compare CSRS benefits with the total package of social security and private pension benefits earned by most workers in the private sector. A Federal employee retiring at age

55 with 30 years of service will receive an initial pension equal to 56.25 percent of his High-3 salary years. Studies show that private sector employees receive approximately the same size annuity from the combination of social security and a private pension plan. Studies also show that Federal workers retire at almost exactly the same age as employees in the private sector. Finally, social security, the annuity base for virtually all employees in the private industry, is fully indexed against inflation, just like CSRS.

With respect to the charge that CSRS is "too costly," we refer to two recent studies of the system, one by the actuarial firm of Hay-Huggins, which was mentioned earlier, and the other by the Congressional Research Service. The groups produced almost identical results in comparing the cost of the CSRS to typical private sector plans. As a percentage of pay, the current civil service retirement system costs the Government approximately 6.4 percent more than the average pension plan in private industry. While the difference is measurable, it disappears when other elements of the Federal compensation package are factored in. In short, Federal compensation would be completely ineffective as a recruitment and retention tool if it were not for the fact the CSRS is a solid pension program.

The debate over civil service retirement is riddled with erroneous facts and absurd myths. Indeed, there are so many mistaken ideas that last year Congressman Michael Barnes (D-MD) thought it was about time to put an end to many of them. He put together a report entitled, "The Ten Most Common Myths About Federal Retirement." The report's highlights are summarized below.

* Many companies provide better pensions, and most private plans require no employee contribution, while Federal workers must contribute 7 percent of their salaries to the pension fund. Further, private sector employees can benefit from thrift and stock- incentive plans, as well as other benefits such as profit-sharing, while Federal workers cannot.

* Federal pensions are fully taxed.

* Both private and Federal workers retire, on average, at age 61. Virtually all private pensions permit retirement at age 55 with 10 years of service.

* The solvency of a retirement system is based upon its ability to meet all obligations when they become due. The Civil Service Retirement System (CSRS) currently has five times the reserves it needs to pay Federal annuities as they become due. Reserves continue to grow at a healthy rate and now exceed $100 billion.

* The CSRS's unfunded liability is not a budgetary obligation. It is simply an estimate, based upon abstract assumptions. It answers the question, "What would happen if the value of all Federal employee pension benefits had to be paid at once on some future date?" The Federal Government would never find itself in such a situation.

* More than half of all Federal annuitants receive less than $1000 per month. The average Federal annuity in fiscal year 1982 was only $12,500 a year.

The arguments about generosity and cost have been used repeatedly by the system's detractors in pushing benefit cutbacks. Since 1976, numerous reductions have been made to CSRS annuities, including: the elimination of the so-called 1 percent add-on and semi-annual COLAs; an increase in taxes on disability pensions; a reduction in benefits for Federal retirees eligible for a social security spouse's benefits; the elimination of the "lookback" formula; a cutback in initial COLAs for new retirees; COLA delays; and more restrictive rules for redepositing contribution withdrawals. How much more does the system have to be weakened before these arguments are recognized for what they really are - merely excuses for trying to balance the Federal budget on the backs of civil service retirees.

In the past, the Committee has demonstrated an excellent record of fighting these cutbacks. I hope you will continue to defend the system as you develop a new retirement plan.

For these reasons, the new supplemental civil service retirement system, when combined with social security, must provide benefit levels comparable to those of the current system. You simply cannot ignore the fact that other aspects of Federal compensation are worth less than their counterparts in private industry. Should civil service retirement also fall below private sector standards, the Government would find it virtually impossible to recruit and retain talented employees.

By comparable benefits, we refer to age and service requirements, including those that apply to Section 8335 (mandatory separation) employees of Title 5 U.S.C. As you know, most Federal employees may currently retire at age 55 with 30 years of service; at age 60 with 20 years of service, and at age 62 with 5 years of service. These requirements are often attacked as being too liberal, particularly by those who do not know or who choose to disregard their real impact. The current age and service requirements are responsible for an average Federal employee retirement age that is almost exactly the same as the average in private industry. According to the General Accounting Office, Federal workers retire at an average age of 61.1; private sector employees retire on the average age of 61.8.

Now, if I may, I would like to address some of the specific questions which the Committee intends to consider in its evaluation of a new supplemental retirement system.

I firmly believe that the funding of the new supplemental plan should not endanger benefits to either current or future employees. The new system should provide a level of benefits comparable to the current program. We also strongly advocate a flexible retirement age policy that encourages and rewards long term service. It would be a disaster to create a new retirement program that did not protect the Government's expertise and institutional knowledge. In other words, cost <u>savings</u> should not be the primary factor in establishing a new system - the last thing we want is a cheap retirement system.

Equity between present employees and those hired after this year should also be achieved in the area of payroll contributions. Current civil service workers pay 7 percent of salary toward Federal retirement and 1.3 percent toward Medicare, for a total payroll deduction of 8.3 percent. In order to avoid dissension between present and new employees, and to ensure a certain degree of fairness between the two groups, the new system should not require civil servants hired after 1983 to contribute more than this amount.

Inflation protection should also be a part of the retirement system. It is neither wise nor fair to design a program which provides a certain level of benefits upon retirement but does not regularly adjust the value of these benefits in relation to the cost-of-living. The reduction in purchasing power which would inevitably ensue would place a burden not just on the retirees, but on all of society.

We recognize that retirement plans in private industry do not, as a rule, provide full yearly COLAs, although most plans are integrated with social security which is adjusted annually for increases in cost-of-living. Instead of eliminating regular COLAs in the new supplemental retirement system, private industry should move to provide full inflation protection in their annuity programs. In other words, private industry plans in this specific area should be improved; we should not weaken the existing civil service provisions. This would be in the best interests of society as well as Federal and private sector workers.

This concludes my statement. I will be happy to answer any questions.